



Quarterly Report – Quarter 4, 2002

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Submitted by: Deloitte Touche Tohmatsu Emerging Markets, Ltd.

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Issuing Office: **USAID Office of Microenterprise Development (MD)**
Task Order Number: **8**
Project Name: **Advancing Missions' Knowledge and Practice of Microfinance and Business Development Services**
Start Date: **September 25, 2002**
Est. Completion Date: **September 30, 2005**

Objectives

The objective of this Task Order is to help the USAID Microenterprise Development Office better understand good practice in the field, disseminate knowledge regarding good practice, and contribute to the development of Mission strategies to advance the practice of microfinance and business development services. Technical assistance will be offered in the form of studies, market research, technical assessments, and training and/or workshop events.

Overview

Assistance to the Kenya Business Development Services (BDS) project

Under subcontract to Deloitte, AFE provided a range of short-term technical assistance (STTA) in business service development to the Kenya Mission and its contractors.

Preparation Activities

In preparation for this work, AFE met with staff from MD and with head office representatives from the relevant contractors on October 29, 2002. The proposed roles of the STTA team were reviewed and discussed.

AFE also completed other workshop preparations, including the finalization of participant materials, session plans, reference documents, and logistics. Upon arrival in Nairobi on November 18, 2002, AFE held an initial meeting with USAID Kenya staff to review the goals of the STTA team and to discuss the specific objectives of the trip.

Business Service Program Design/ Strategic Planning Workshop

From November 19-22, 2002 AFE conducted a four-day workshop on the "Subsector/Business Service Approach (SBS)" to program design. The two main goals of the workshop were to:

Present and discuss a framework for the promotion of commercial business services; and
Review current program design strategies in light of a business services framework.

By the end of the workshop, it was anticipated that participants would be: (i) skilled in practical tools and methods for effective business service program design, and (ii) able to implement strategies for adopting a business service development approach within their overall programs.

A total of 17 participants attended, including representatives from:

- Maize Development Project - ACDI/VOCA Kenya and consortia members (Cereal Growers Association (CGA) and Kenya Agricultural Commodity Exchange (KACE)
- Dairy Development Project - Land O' Lakes Kenya and consortia members (American Breeders Service (ABS)/Total Cattle Management (TCM) Ltd. and Worldwide Sires)
- USAID Kenya BDS Project - Deloitte Emerging Markets
- USAID Kenya
- USAID MD

AFE utilized a range of participatory methods to actively engage participants in the workshop. These included the use of small group discussion, case studies, and question and answer.

Three small groups were formed, based on the new USAID-funded enterprise development programs for dairy, maize, and BDS. These groups used their own knowledge and experience in the respective subsectors (or a case study for the BDS group) to progressively apply the tools and methods discussed during each session.

There were also two guest speakers. Jeanne Downing from MD led a session on impact assessments for business service programs. Henri van der Land from SNV Tanzania presented his field experiences facilitating a business linkages and market access program in Tanzania.

Workshop Outcomes

Based on the positive responses from participant evaluations, the goals of the workshop were successfully accomplished. There was strong enthusiasm for the adoption and assimilation of the SBS approach. However, it was acknowledged that significant challenges still remain to effectively incorporate a business services development approach to some of the programs as they are currently formulated.

The last session of the workshop focused on the next steps needed to adapt the participants existing programs, work plans, and performance indicators to the business services approach.

Integration of Business Service Approach into Existing Programs

On Monday, November 25, 2002 AFE led a session to further discuss three important topics: (i) performance indicators for business service activities, (ii) role of commercial business service providers as subcontractors, and (iii) pilot business service assessments.

Performance Indicators for Business Service Activities

During the session, participants reached consensus on an illustrative set of common performance indicators for the business service interventions within their programs. The

business service performance indicators, at both the intervention and outcome level, are shown in Table 1 below. It should be noted that these are preliminary indicators and may change in relation to the Mission's Performance Measurement Plan (PMP). They would also be in addition to any subsector-specific indicators already proposed by the individual programs.

Table 1. Common Performance Indicators for Business Services in Kenya

Intervention Indicators	Outcome Indicators
Number of enterprises acquiring business service from targeted/participating commercial providers	Number of enterprises acquiring business service from targeted/participating commercial providers in a sustainable manner (i.e. full cost recovery)
Number of commercial service providers (operating without a subsidy)	Percentage of enterprises benefiting from service
Revenues and/or profit of commercial providers (operating without a subsidy)	Sales (value and volume) of subsector product to final markets
Number of enterprises aware of business service	Revenues or profits of enterprises in target group
Number of linkages made (depending on intervention)	
Program costs per enterprise acquiring business service from targeted commercial providers	

Participants also felt that some description of selected qualitative indicators could complement the quantitative M&E information. These could include: transactions along the supply chain; changes in employment; and increases in productivity.

In response to the M&E needs of the participants, AFE proposed to provide follow-up technical support in mid-January/February 2003. The objectives will be to further define the common performance indicators and to develop appropriate impact measurement tools and systems for the maize, dairy, and BDS programs.

Role of Commercial Providers as Subcontractors

A clear distinction between a business service facilitator and a commercial provider is a critical aspect of the business service approach. However, many organizations often play both roles concurrently.

Participants raised some concern over the appropriate role for commercial providers as subcontractors on a USAID-funded program and the potential conflict of interest. In the Land O'Lakes dairy development program, for example, there are subcontracting partners who will be subsidized to provide technical training in artificial insemination (AI) services but are also for-profit commercial providers of AI products.

It was determined that commercial business service providers could serve as subcontractors, as long as they remain in compliance with the principles of business

service *facilitation*. This would include the opening of program activities to all qualified business service providers and actively promoting competition among all commercial service providers. It was agreed that future activities and programs would make efforts not to identify (in advance) commercial providers to serve as business service facilitators.

Pilot business service assessments

In order to maintain the momentum for participant adoption of the business service approach, AFE will provide direct technical support to the programs in mid-January/February 2003 as they begin to conduct assessments of their selected business services. Some of the initial interviews of providers and selected consumers of the identified business services can be done by the program implementation teams. But AFE will facilitate the focus group discussions to validate the subsector/business service findings and explore possible facilitation interventions.

The three enterprise development programs have conducted various degrees of subsector selection and analysis. While the Deloitte Kenya BDS program has yet to determine which subsectors to target, the ACIDI/VOCA maize program will need to better understand the key players, their functions, and dynamics of the maize subsector before conducting business service assessments.

Other Activities

During this quarter, several consultants were hired, with work slated to begin during Quarter 1, 2003:

Lucy Creevey for the design of an impact assessment for BDS-IGPs in Guatemala
Susan Drake Swift for the development of a Communications Strategy for MD
Dan Maly for the development of an e-strategy for MD

Problems Encountered

N/A

Activities to be Undertaken During 1st Quarter 2003

Kenya BDS

Maize Development Program

For the ACIDI/VOCA maize development program, it was clear that more comprehensive analysis of the subsector is necessary before moving forward with business service interventions. The two main business services targeted by the program are market access and input supply for small-scale growers. The original program design included the development of commercial “hubs” that would provide these services, along with others. However, it appears that an assessment of these business services (including analysis of existing commercial providers) was not done.

After some discussion, it was felt that completion of a basic map of the maize subsector would be a useful exercise. Understanding the key players, and their inter-relationships, in the high maize production areas would help the ACDI/VOCA team to identify commercial providers of market access, input supply, and other business services. Starting the program by creating a new marketing channel, where existing ones may be more efficient, was recognized as risky.

It was agreed that the exact role of the various subcontractors for the maize program would be reviewed, in light of the business service development orientation. In particular, the appropriate role for FIPS and KACE must be further defined.

Dairy Development Program

One of the major topics of discussion for the Dairy group was to decide how to reorient their program given the fact that two commercial providers of artificial insemination products and embedded services had been identified as subcontractors under the project. As mentioned earlier, this could potentially conflict with business service promotion principles by creating unfair advantages for these providers, versus the other commercial providers in the country.

To address this issue, the dairy group went through each of the AI subcontractors' tasks that had been described in the Land O'Lakes proposal. Many of these tasks had to do with training of private AI agents. A variety of decisions were then made to help promote competition among all AI providers. These included:

- consulting with all companies offering AI products to get input into the design of the training curricula
- including information on the products offered by all AI companies in the training programs
- selecting one representative from each of the major AI product companies to be part of the training team (in this way they would bring improved training capacity to their respective companies once the training activities were completed)
- capacity building and training of AI agents would be promoted under the "banner" of the Dairy Project, and not the AI subcontractor that was managing the training activity.

Questions remained on what to do about the activities of the International Livestock Research Institute (ILRL). The ILRL had been listed as a subcontractor in the LOL proposal and it was originally planned that they would undertake a variety of direct service provision activities. The ILRL representatives were not present during the AFE training or meetings so it was agreed that the LOL team would hold discussions with them to see what could be done to adapt their activities to the business service approach.

The Dairy group chose two additional business services to focus on initially. These were:

- Provision of affordable, quality feed to smallholder firms, and
- Milk collection provided to smallholders

It was agreed that the LOL team would begin to collect information on the supply and demand of these services, using questionnaires provided during the AFE training. This would lead up to two focus group discussions to be held in mid-January (with technical assistance from the STTA).

USAID Kenya BDS Program

The Kenya BDS program (being implemented by Deloitte is in the start-up phase of subsector selection. By the first quarter of 2003, the program will be conducting analysis of their first subsector. This will be followed by business service assessments, the identification of interventions, and implementation of interventions. To support this process, the AFE team worked with the program COP to review his work plan for the next six months. Suggestions were made on how best to follow the subsector/business service approach. Specific input, in the form of an illustrative scope of work, was given to help support the subsector selection process.

Round Tables on Business Service Approach for Government/Private Sector

The contractors and USAID representatives also proposed holding two, one-day round table discussions for select government and private sector entities who were partners with USAID Kenya on dairy, maize, and other initiatives. Some of these entities are (or will be) receiving grants from USAID and therefore need to understand the principles of the business service approach. It was agreed that these sessions would be organized after several months time.

Summary of Follow-up Activities

Before departing on November 26, 2002, AFE de-briefed relevant USAID Kenya staff on the results of the workshop and the proposed follow-up activities for the STTA team (see Table 2 below).

Table 2. Summary of Follow-Up Activities

Period	Proposed Activities
December 1, 2002 to mid-January, 2003	<ul style="list-style-type: none"> • advise on preparations for subsector analysis (maize) and business service assessments • STTA to Deloitte on subsector selection • meetings with contractor representatives in Washington DC, together with USAID/Office of Microenterprise Development • general STTA as needed
January 12 – 30, 2002 (Kenya)	<ul style="list-style-type: none"> • STTA on business service assessments and identification of interventions • work plan development and reviews • STTA on monitoring & evaluation

Period	Proposed Activities
On-going Quarterly (Kenya): -- after submission of quarterly reports [beginning early/mid May 2003]	<ul style="list-style-type: none"> • review quarterly reports and implementation issues • lessons learned workshop • review monitoring • other general STTA as needed to adapt interventions to the SBS approach

The focus of these initial follow-up activities is to support the three programs in development of their workplans and program adaptation to a subsector/business service approach. Technical support by the STTA team during the assessment phase of selected business services will be important.

Conclusion

The AFE team felt that the initial activities of the STTA unit went well and that there is now significant buy-in and improved understanding of the business service approach. All of the participants from the contracting firms and USAID were highly motivated and demonstrated a commitment to make this initiative work. While much remains to be done at the implementation level, there is a general feeling that the participants are committed to the process.

Other Projects

Begin carrying out Guatemala, Communications Strategy and e-Strategy assignments.

Issuing Office: **USAID / Amman**
Task Order Number: **816**
Project Name: **Jordan MWI Institutional Improvement Action Plan**
Start Date: **July 15, 2002**
Est. Completion Date: **February 28, 2003**

Objectives

The purpose of this project is to assist the Jordanian Ministry of Water and Irrigation (MWI), and its implementing agencies the Water Authority of Jordan (WAJ) and the Jordan Valley Authority (JVA), in the development of an Institutional Improvement Action Plan. Deloitte had earlier conducted a similar study in 1996 funded by CIDA, and the purpose of this work is to assess progress against this and other benchmark review conducted subsequently, identify immediate, short and medium-term action steps for continued improvement, and develop a detailed action plan for further institutional strengthening of these three critical sector institutions over the next five years.

Overview

In more detail, the project will focus on the following four steps:

(1) Review of past studies: The project team reviewed past studies, reports and documents including, but not be limited to the list of primary references provided to us by USAID in the prospective Task Order. We also reviewed the scope of ongoing studies and the extent to which their results should be considered in the actions that we are recommending. In particular, we reviewed progress and draft recommendations on the World Bank PPIAF funded study for regulatory reform of the water sector in Jordan.

(2) Analysis of structural reforms: The analysis of structural reforms comprised the following activities:

- analysis of the results of previous studies, reports and documents;
- consultations with USAID's Strategic Objective 2 (SO2) Team members;
- consultations with senior MWI officials and lower levels as required;
- consultations with other donors involved in MWI, as deemed necessary by USAID; and
- consultations with other external entities and stakeholders if deemed necessary.

The assessment of progress utilized the recommendations and action plan contained in the 1996 CIDA-funded Structural Adjustment and Policy Support Project as a baseline and include, but not be limited to, the assessment and analysis of water goals and objectives, legislation and institutional environment, institutional arrangements and structure; policy and planning framework; staffing; financial framework, business planning, HR, training, and information systems.

(3) Identification of action steps for continued improvement: Based on the assessment and analysis carried out in steps 1 and 2, the team identified the critical actions required for continued institutional improvements or changes to further strengthen MWI and its implementing agencies to become more effective in managing Jordan's water sector and water and wastewater delivery, with a focus on efficiency and financial viability.

(4) Development of action plan: Based on the above reviews, assessment and analysis of progress by MWI on institutional and policy reform and operational improvements, the team have prepared an Action Plan for MWI Institutional Improvement, focusing on the required immediate, short term and medium term actions (1-5 year period) for improved management of the water sector.

The Action Plan prioritizes required action steps with achievable outputs and timeframe, technical assistance (if required), level of effort, and estimated costs.

Noteworthy accomplishments during 4th quarter 2002

We completed and submitted our draft report in November. This was subsequently reviewed by MWI, USAID and several consultant working on water sector projects with other donor agencies. Following submission of our draft report, Dr. Eisendrath made a presentation of the proposed institutional strengthening strategy to MWI, WAJ and JVA senior staff.

Feedback received from all stakeholders, both formal and informal, has been taken into consideration to finalise our draft report, due by the end of January 2003.

Problems encountered

No material problems were encountered during the quarter.

Activities to be undertaken during 1st quarter 2003

In the next quarter, our team will deploy Dr. Eisendrath for a further three day visit to Jordan to submit our final report to USAID, MWI, WAJ and JVA and to make a presentation on same. This is expected to occur in late January/early February and thus will conclude the assignment.

Our intent remains to provide USAID with clear, detailed and workable intervention designs that carefully take into account local conditions. These will be coordinated with Jordan's overall water strategy and policy; and prioritized to meet the most critical needs of MWA and its implementing agencies in responding to that strategy and policy.

Issuing Office: **USAID / El Salvador**
Task Order Number: **814**
Project Name: **Evaluation of the Rural Financial Services Activity**
Start Date: **July 12, 2002**
Est. Completion Date: **November 1, 2002 (Extended)**

Objectives

The purpose of this evaluation was to assist USAID/El Salvador in determining how the Rural Financial Markets (RFM) activity (519-0435) is contributing to the achievement of Mission Strategic Objectives (SO) 1 – “Expanded Access and Economic Opportunity for El Salvador’s Rural Poor Families” and corresponding Intermediate Result (IR) – “Expanded Equitable Access to Financial, Technological, and Marketing Services by the Rural Poor”; and to recommend priority actions to increase financing available for rural poor.

Overview

The Deloitte team was tasked with conducting an evaluation of the Rural Financial Markets activity in El Salvador. Tasks included: (1) reviewing the results achieved by FOMIR/DAI, under the RFM activity to evaluate contractor performance; (2) analyzing FOMIR/DAI and the grantees that FOMIR is supporting, to determine the sustainability, local capacity building and replicability of the FOMIR model; (3) evaluating the constraints to the expansion of the Microfinance market, and (4) providing recommendations to USAID on how best to improve impact, sustainability, and cost-effectiveness of the FOMIR project, with the aim at improving the design of future activities in the microfinance sector.

Noteworthy Accomplishments During 4th Quarter 2002

During this quarter, the team worked to make minor modifications to the final report, incorporating suggested changes from the USAID/Ecuador Mission. The final document was submitted to USAID during this period.

Problems Encountered

No unexpected problems were encountered during the implementation of this project. However, the team did request a No-Cost Extension through November 1, 2002 in order to incorporate all of USAID’s inputs and finalize the modifications for the final report.

Activities to be Undertaken

The final report has been submitted and accepted by USAID, bringing this project to conclusion. Therefore, no additional activities will occur under this task order.

Issuing Office: **USAID / Mali**
Task Order Number: **813**
Project Name: **Strengthening the Capacity of the ECOWAS Office of Accounting and Financial Management**
Start Date: **August 1, 2002**
Est. Completion Date: **April 30, 2003**

Objectives

The objective of this Task Order is to improve the capacity and overall level of performance of the ECOWAS Office of Accounting and Financial Management.

Overview

Tasks for this project include (1) the development of a detailed work plan outlining the different tasks to be accomplished and the expected results and indicators for measuring progress; (2) procurement and installation of an integrated computerized accounting and financial management system, including associated office equipment; and (3) training of the ECOWAS Office of Accounting and Financial Management staff in computer and software use for accounting and financial management purposes.

Noteworthy Accomplishments During 4th Quarter 2002

After completing an initial assessment, the team identified three qualified vendors in Lagos who sold and serviced internationally recognized accounting software packages that could potentially suit the needs of ECOWAS.

The hardware specifications were finalized during this period and the procurement process began in mid-November, when the team issued a Request for Quotations to Nigerian and US vendors. The team expected to select the appropriate vendor during the beginning of December 2002 and complete the procurement process in January 2003. However, there have been some delays in getting a final decision from ECOWAS.

The team continued to work with ECOWAS to assess the different hardware and software options and is now awaiting final word from the ECOWAS Office of Accounting and Financial Management as to which system they wish to implement. Once a final decision is reached, the team will conduct a follow-up visit to Abuja to implement the system and provide training.

Problems Encountered

Areas of potential concern include:

- Potential delays in the final decision for accounting software due to the need for final approval and buy in from the ECOWAS Board of Directors. The team will continue

to work closely with the ECOWAS team to assure that all the necessary information is available to the board in making their decision. The team has also delayed a final decision on purchase of hardware pending the decision by ECOWAS on the accounting software.

- In December, the team discovered that ECOWAS Office of Accounting and Finance had received a donation of an "Integrated Financial Management Software" system from SYBASE, complete with training, documentation, customization and implementation. Our team was unaware of this donation until we requested specific clarification on this issue. Therefore, this system was not included as one of the systems that the team evaluated for ECOWAS while they were in Abuja or since their return. Once we were made aware of this donation, our team contacted SYBASE and has worked with ECOWAS to understand exactly how it related to ECOWAS, but, to date, we have been unable to confirm the offered donation by the SYBASE representatives in Nigeria. It appears that the donation was offered two years ago, and apparently the conditions required to be completed by ECOWAS to begin the process have yet to be done. The team will continue to work with ECOWAS and USAID to understand this issue and determine next steps.
- As per the quotes obtained from software vendors, it is possible that we may exceed the amount currently budgeted for the accounting software. Further evaluation is being conducted to determine how to remain within the current budget.

Activities to be Undertaken During 1st Quarter 2003

Following the strong progress achieved during this next phase of the project, the team plans to undertake a series of specific tasks to move through the decision and procurement phase of the project to further the goals for the selection and implementation of an accounting system for the ECOWAS Office of Accounting and Financial Management. Major tasks and objectives for next month include the following:

- Ensure that ECOWAS has completed all agreed upon tasks before installation of the system
- Finalize the selection of software package and vendor. Recommendation to ECOWAS and USAID
- Finalize the purchase of hardware.
- Agree on procedures to accommodate software price with project budget
- Establish timetable for procurement, shipment and installation of hardware.
- Begin steps to ensure a smooth passage of goods through Customs, with particular emphasis on obtaining proper customs and IVA waiver documentation from US Government.
- Work with USAID and ECOWAS to schedule next visit to Nigeria for Written Policies and Procedures phase.

In summary, the Project team is continuing to try to move ahead according to plan and is making progress in working with the ECOWAS Accounting and Financial Management Office. Important steps have already been achieved, and we expect this trend to continue as the team works closely with ECOWAS to select and procure the hardware and software during the next quarter.

Issuing Office: **G/EGAD/EM (now EGAT/EG)**
T.O. No.: **1**
Project Name: **Financial Sector Review and Strategy**
Start Date: **September 24, 2001**
Est. Completion Date: **March 1, 2003**

Objectives

The specific objectives of this T.O. include:

- Review the reform of the International Financial Architecture
- Review Domestic and International Players
- Review USAID's Financial Sector Portfolio
- Assessment of EM's role
- Development of Options for EM
- Conduct a forum

In the second quarter, 2002, the task order was modified to provide additional support on one key issue in financial sector development: SME Finance. The objectives of the modification were to support the preparation by EGAT/EG of three case studies on innovative practices on lending to small and medium enterprises.

Overview

During the first quarter, 2002, the first four tasks of the scope of work were completed. During the second quarter, a draft report on the options for the Office of Emerging Markets (now the Economic Growth office) was prepared and submitted. Edits and refinements to that draft Task 5 report were made during the third quarter. The majority of the original level of effort for those tasks were expended. The effort in the third quarter was dedicated to the statement of work in Modification Number 1, to assist to prepare innovative practices on lending to SMEs.

During the fourth quarter, the draft Task 5 report was completed as well as completion of the case studies on innovative practices on lending to small and medium enterprises. Six case studies were completed and delivered to USAID on September 30, 2002. During the fourth quarter, the reports for Tasks 1 through 4 of the original scope of work as well as the six case studies were posted to EGAT/OEG's website: http://www.usaid.gov/economic_growth/egad/em/newreports.htm.

On December 12 and 13, 2002, the USAID Financial Sector Review and Strategy Forum was held. On the first day, the six SEGIR-FS contractors presented in a series of five panels. Their presentations included central issues in the subsector (e.g., pensions), lessons learned from USAID projects in the context of financial-sector trends, what works and what does not, and what these lessons mean for USAID financial-sector programs, more generally. On the second day, participants heard the preliminary results of the work of the team from Deloitte Touche Tohmatsu on the Financial Sector Review

and Strategy. We then anticipate the comments of our and partner donors and agencies in the development community, our major implementers, USAID colleagues. The purpose to assist OEG in refining its financial-sector strategy. Our strategy is a work-in-progress, and your views and comments will help to make our work more responsive to financial sector developmental needs. The FS Review Team presented the findings from this project. USAID, its implementing partners, and other members of the donor community then provided their perspectives on the Task 5 report and overall findings of the work. A revised final report will be completed by the end of February, 2003.

Noteworthy accomplishments during the quarter

- Comments were received on the decision tool for interventions in SME Finance and specifications were delivered to the consultant who will convert the tool into HTML format for posting on the EGAT website.
- Final draft of the Task 5 Report was completed on December 4, 2002 and circulated to management of EGAT's Office of Economic Growth, all SEGIR-FS contractors, and to select USAID Mission and Washington personnel
- A Financial Sector Review and Strategy Forum was held. The forum was attended by nearly 100 participants who actively participated in forging a new strategic direction for USAID in the financial sector. Comments on the work of the FS strategy team can be summarized as highly positive and both implementing partners and USAID personnel found immediate use for the recommendations in shaping current and planned interventions in the financial sector.

Problems Encountered

Discussion of options necessitated significantly more time than originally anticipated and the scope of the Forum was increased from ½ to 1 ½ days, and is was to be held off-site. The task order was modified to accommodate the increased costs of an off-site forum at a hotel and to further extend the completion date to March 1, 2003.

Activities to be Undertaken During Quarter 1, 2003

During the 1st Quarter, 2003, the project team will undertake the following activities:

- Continue revisions and production in HTML format of the decision tool for USAID missions to use when designing interventions to improve access to SME finance
- Revise the Task 5 report to reflect comments of the Forum
- Produce Proceedings of the Forum

Issuing Office: **EE/MT/FSP (now EE/EG)**
T.O. No.: **2**
Project Name: **Partners for Financial Stability (PFS-II)**
Start Date: **March 1, 2002**
Est. Completion Date: **April 30, 2004**

Objectives

In September 2002, the task order was modified and the project name was changed to Partners for Financial Stability (PFS-II). The new objectives are to establish a Secretariat to support USAID/EE/EG in coordination between and among implementing partners of the PFS-II program in a range of administrative and strategic planning areas.

Overview

The September 2002 modification provided for the contractor to assume the secretariat function and undertake the following tasks:

1. Administration, Meeting & Logistics Support.
2. Monitoring Upcoming Programs
3. Archiving & Document Management
4. Web-site coordination, updating & dissemination of results
5. Printing, copying & graphic design
6. Senior management support—strategy & planning

Noteworthy accomplishments during the quarter

- Coordinated the Regional Workshop in Budapest and moderated key sessions
- Developed contents of a CD-Rom to be circulated with proceedings from Regional Workshop in Budapest
- Wrote Executive Summary and edited proceedings of the workshop, prepared by USAID New Entry Professional
- Continued to build database of past projects and complete the analysis of how PFS funds were expended from 1999 to September, 2002
- Developed management tool for analysis of annual workplans submitted by implementing partners, East-West Management Institute (EWMI) and Financial Services Volunteer Corps (FSVC)
- Planned and attended strategy session in New York on December 19, 2002 to discuss the annual workplans
- Provided an initial draft of the strategic framework for PFS-II
- Designed series of tools to use for improving communications, including calendar of events and distributed it to Embassy Economics Officers, PFS-II implementers, and USAID mission and Washington personnel

The highlight of the fourth quarter was the Annual PFS Regional Coordination Workshop held in Budapest on November 6 and 7, 2002. Participants discussed the PFS program's flexible approach to provision of assistance and the need to operate within a strategic framework to show results. The demand-driven nature of the PFS program is filling a critical US foreign policy need. The freedom to program quickly PFS activities to meet gaps in the PFS countries' financial sectors means the US Embassies can meet changing counterpart demands. Indeed, they may not be able to do broader forward planning and still be responsive. Furthermore, the excellent rapport with the implementers and respect for their level of professional competence provides the Embassy with confidence that activities delivered will be well received by counterparts.

While agreeing with the need to maintain a streamlined and demand-driven process, participants emphasized the need for technical assistance and training activities to achieve sustainable impact on the development of CEE countries' financial sectors. Activities should not be scatter shot, but rather should build upon previous work and demonstrate clear results. All workshop participants agreed that brief assessments should be conducted of work done to date. In addition, it was agreed that a revised strategic framework should be developed, upon which approval of activities will be based, to update the original project concept documents. This would also reflect features of the revised cooperative agreements with the implementers, description of the process from identification of technical assistance or training activities through implementation, and details of results sought by sub sector.

Accordingly, in the next quarter, the Secretariat took action to begin the development of the strategic framework for PFS-II, which was completed and circulated in late December 2002.

Problems Encountered

Performance of the secretariat function relies heavily on cooperation of the implementing partners. In addition, the secretariat is supporting the new PFS CTO to implement a new vision of how USAID is managing the program. While there was resistance at first from implementers, by the end of the fourth quarter, a new, higher level of cooperation and coordination has been reached. Furthermore, the secretariat team and the CTO have made an attempt to collect significant financial and technical data on past activities which was never collected in the past. The process of obtaining, categorizing and analyzing information on PFS activities has taken more effort than originally anticipated, but at the end of the 4th Quarter there is greater management information about projects undertaken by country and by technical area that allows for more strategic focus going forward.

Activities to be Undertaken During 1th Quarter 2003

- Complete Proceedings of Workshop
- Support the CTO's upcoming TDYs by producing country briefing books/marketing kits

- Continue analysis of cumulative impact/results of activities through September 2002 and develop work program for targetted assessments to be undertaken in 1st and 2nd quarters of 2003
- Complete strategic framework upon receipt of revised work plans and objectives from implementers

Issuing Office: **USAID / Budapest**
Task Order Number: **820**
Project Name: **Macedonia Financial Sector Strengthening Project (MFSSP)**
Start Date: **5 August 2002**
Est. Completion Date: **August 2005**

Objectives:

This Activity provides assistance to the financial sector in Macedonia in the following areas:

- assistance to the commercial banking system;
- assistance in investment promotion and in the building of a viable capital market;
- assistance in accounting reform and strengthened financial reporting among enterprises;
- assistance in pension reform to include strengthening of the pillar one system and design and planning work for a pillar two system; and
- assistance in a range of other areas to include insurance supervision, legal reform, SME finance, and NBFI development.

The Macedonia FSS project will support USAID/Macedonia's Strategic Objective 1.3 – Accelerated Development and Growth of the Private Sector. The SO 1.3 is linked to other initiatives currently occurring in the region, however, this activities' Immediate Results consists of: I.R. 1.3.1, Bank and Non-Bank Financial Institutional Strengthened.

Overview of the project team, overall workplan, accomplishments to date:

The project has been operational since 24 August 2002. The project team is composed of the following long term advisors for each major financial sector:

- Robert Singletary, Chief of Party and capital markets advisor
- Joe Fischl, Accounting expert
- Phil Mistretta, Banking expert
- Mitch Wiener, Pensions expert

A major theme of the MFSSP is to combine the work in each segment of the financial sector so that it promotes a more cohesive overall financial system. In addition, the MFSSP also places great emphasis on working with other USAID projects as well as other donor agency projects in the country to maximize the effectiveness of the efforts.

Major accomplishments on the project in the 4th Quarter included:

- The MFSSP team delivered a finalized Inception Report and Workplan containing a status report for each sector under the MFSSP, comments on the Task Order assignments, suggested additional work and identification of cross-cutting areas: (1) within MFSSP; (2) between MFSSP and other USAID Projects; and (3) between MFSSP and other donor projects.
- The COP prepared and delivered a presentation to the Pension Reform Roundtable sponsored by the World Bank concerning the intersection between pension reform and the capital markets, insurance, accounting and banking sectors.
- The MFSSP provided input to the Ministry of Finance as it prepared its policies to be presented to the Council of Ministers. This input concerned the role of financial system reform in promoting economic growth.

Noteworthy accomplishments during the quarter:

Pensions

- Investment Advisor Alicja Malecka completed her visit to Skopje for 2.5 weeks in order to assist with the Tender process, visiting with government officials, insurance companies, banks, and brokers, and preparing the following documents – list of potential bidders, marketing presentation for potential bidders, comments on various regulations affecting pension funds, and advice on how to improve the Tender process.
- Using computer models, estimates were made for the replacement ratios from the solidarity system for those remaining in the current system, and for those choosing to join the two-pillar system. Analysis was done for males and females and for workers with different numbers of years of service. We also estimated the required rate of return in the second pillar in order to produce a higher benefit from the new system than the old.

Banking/Non-Banking

- We completed our analysis of restructuring/privatization transaction of Stopanska Banka
- We reviewed financial information and reports from the Asset Management Agency and the Deposit Insurance Fund of Skopje and met with the principals of these organizations

Accounting

- The Project played a pivotal role in forming the Examination Committee for the Certification Exam and after the Minister of Finance's approval (required under the law) the Committee held its first meeting on December 11th.

Capital Markets

- We obtained and discussed with the MSEC their detailed request for assistance and began a long-term plan for TA to be provided by the Project.
- We have instituted regular weekly meetings with the top management of the MSE. The Exchange has presented its requests for technical assistance and we are placing them into a long-term integrated plan (this capacity building is an element of the Task Order assignments.)

Problems encountered:

Pensions

The biggest problem encountered to date is within the Pensions area. The team is concerned that the World Bank might not be able to honor its assistance commitments in the pensions area, thus threatening the critical path analysis agreed to by the donors. Specifically, two consultants did not come to Macedonia in November which has affected the progress of the Pensions Agency. Unfortunately it seems that the Pensions Agency is now about one month behind schedule.

Accounting

Changing the by-laws of the existing SRO is proving to be very difficult due to the fact the current leadership refuses to modify them (under the proposed changes they would probably be voted out of office). To replace current SRO officers would require a decree of law since the SRO was created similar to a governmental agency. The project could emphasize the leaderships' significant deficiencies (most notably the failure to follow IFAC rules of operations) in an effort to have more professional, democratic officers installed. This could, however, in the process nullify the SRO's associate membership in IFAC, which would take a minimum of 2 years to re-gain. All options remain open.

Activities to be undertaken during 1st Quarter 2003

The following major activities are anticipated to be carried out during the 1st Quarter in each subject area:

Accounting

- Hold the remaining parts of the Auditor Certification exam during the 2nd and 3rd weeks of January, with associated review courses to be given a week before each exam. Results of the examination process will dictate the future options the project must decide to take in order to produce an educated financial community. Final decisions will be made as to the organization of the extended intensive course in IAS mentioned above.
- Re-evaluate the make-up of the examination committee to remove impediments to produce an IAS compliance in all financial aspects
- Continue work in the pension and banking areas to implement IAS

Banking

- Finalize Terms of Reference and complete arrangements for short-term consultants with the Supervision Department of NBRM in the two areas of risk management and accounting policy
- Begin the analysis of the feasibility of a credit information bureau

Capital Markets

- Finish the fieldwork for the detailed review of the CSD's operations to determine the level of compliance with Group of 30 Recommendations and to identify areas in need of improvement.
- Continue our review of the Law on Securities, Law on Investment Funds and Law on Takeovers in comparison to IOSCO, EU Directives and OECD Standards of Corporate Governance.
- Finish our research to determine the level of compliance with the Company Law requirement that all Joint Stock Companies have their registries maintained by the CSD.

Pensions

- Receive comments on secondary regulations of the Pension Agency from the Pension Agency and Macedonian legal counsel. All these regulations must be finalized prior to the public tender to grant two licenses to manage pension assets
- Select an accounting firm to assist the Pension Supervision Agency with finalizing accounting regulations for Pension Companies and Pension Funds.
- Continue preparation for marketing trips to promote the business opportunities offered by the new Macedonian pension system and plan for the Pension Agency's seminar in Skopje.

Issuing Office: **USAID / Romania**
Task Order Number: **812**
Project Name: **Financial Market Reform (FMR) in Romania**
Start Date: **October 1, 2001**
Est. Completion Date: **September 30, 2003**

Objectives

- Break the current vicious cycle of poor capital market development in Romania by simultaneously addressing key issues
- Draft regulatory framework supporting capital market activities
- Initiate efforts to introduce supervision and enforcement of relevant laws and regulations
- Continue to work with key market intermediaries comprising Romania financial market.
- Promoting further development of the market structure and broadening product offerings

Overview

The root problems continue to cause a multitude of symptoms that, in aggregate, have continued a dearth of investment and a slow economic growth. The vicious cycle hinders Romania's economic potential and integration into the European Union.

The project core remains the transformation of the RASDAQ trading platform, organized with USAID assistance in 1997, into a viable stock exchange. The problem, however, is not RASDAQ's design, structure or technical capabilities. Rather, the problem has been the environment in which it operates. The market's, heretofore, legal ambiguity, and ambivalent regulation are being changed through the new securities regulations developed with FMR assistance working in collaboration with RASDAQ, and the CNVM.

The project on-sight work began in early November 2001 with a core Deloitte team of four long-term consultants. In the last quarter, the project received the assistance of three STTA consultants with assignments in drafting regulations (Dick Smith); fixed income markets (Ann Richards) and market operations and listings (Rick Dvorin). The FMR Project Team continues to receive the full and active support of the Deloitte's Touche trained staff in Bucharest.

In the past quarter, the work plan has concentrated on three "work streams": 1) assisting CNVM to draft new regulations in line with Emergency Ordinances which were announced near the start of the project; 2) advising RASDAQ on a process for de-listing

and/or segregating moribund and non-compliant firms from its lists; and 3) a series of ad-hoc assistance efforts for a number of the counterpart entities, including white papers delivered to the Parliamentary Committee, analysis of key regulatory issues for the CNVM and other stakeholders, etc. This last category of assistance has been important in furnishing “quick hits” – demonstrable evidence of tangible progress that helps to build momentum for reform and reinforces the Team’s (and USAID’s) credibility in the market.

Noteworthy Accomplishments During 4th Quarter 2002

The following pages summarize this quarter’s activities and accomplishments:

- **Provided ongoing assistance to the CNVM on new capital markets regulations** – Over the past quarter the FMR Team has continued working actively with CNVM to refine and disseminate new draft regulations pertaining to share registration and ownership, broker-dealer operations, the role of investment funds and other issues that were addressed in the Emergency Ordinances passed in early April of this year. CNVM plans to send each draft to market participants for their comments, at the Team’s suggestion.
- **Proposed improvement of the mandatory purchase transactions procedures** – Upon the request CNVM, the FMR Team in the previous quarter wrote a white paper discussing the implementation of mandatory purchase transactions by majority shareholders. The FMR proposal was meant to improve the unclear and unfair conditions of the new securities law applied to the market participants. In this quarter, we provided hands-on assistance to CNVM in interpreting the procedures and settling a dispute between majority and minority shareholders.
- **Designed a procedure for suspending non-compliant companies from RASDAQ** – As a result of the working collaboration between FMR and RASDAQ, based on the Feasibility Study #1 suggestions, the STTA Rick Dvorin and FMR provided RASDAQ management with advice on suspending non-compliant companies from trading. This action will impact in “cleaning up” the market, and give a signal to investors that rules started to be enforced. In the fourth quarter, Rick Dvorin returned and spent approximately five weeks working on-site at RASDAQ, providing training on enforcement and surveillance and helping RASDAQ improve its internal operating procedures.
- **Suspended a second set of non-compliant RASDAQ companies** – As advised by FMR, RASDAQ identified and suspended a second set of non-compliant companies. This process will give a strong signal to the other RASDAQ companies to take into consideration a stronger compliance with the capital market rules.
- **Provided training for the CNVM registry department** – the FMR team provided training for the CNVM registry staff in order to increase their level of knowledge. Most of the commission personnel is very new in the institution and inexperienced.

The FMR work helped the CNVM staff to better understand the typical functions of a securities registry system.

- **Continued to assist the BSE in identifying new instruments to trade** - in order to attract new listings and implement new financial instruments, FMR continued to support the BSE to study, choose, and implement new products and services including corporate bonds, municipal bonds, mortgage bonds, preemptive rights, margin trading, short selling, local depository receipts, and derivatives. Also the team wrote white papers on most of these subjects, which will enable the BSE staff and its members to better understand the benefits and efforts related to these instruments.
- **Continued to assist the BSE in attracting new companies to list** – Based on the BSE – FMR marketing plan, the FMR representatives met with the representatives of the three of the four Eurobond issuers (Transelectrica, National Road Administration, CFR Marfa) and some of their advisors (JP Morgan and Deutsche Bank) in order to discuss the potential listing of a tranche of those issues on the BSE. The team and the BSE reps. had also meetings with non-listed companies, (Orange Romania and Electrica) in order to attract them to list their shares / bonds on the BSE.
- **Held training session on IAS standards for current and potential listed companies** – Deloitte sponsored the first in a series of brief training sessions on compliance with new IAS standards that was attended by approximately 50 representatives of companies listed either on RASDAQ or BSE as well as companies considering listing.
- **Obtained Government approval for a Summit-level Roundtable on Capital Markets Reform** - Working with the Prime Minister's Office, the FMR Team has gained Government commitment to host a roundtable to be attended by senior Ministers to determine specific actions to be taken in support of capital markets reform. The Roundtable will be held in the first quarter of 2003.
- **Agreed with USAID on the approximate budget and scope of work for Year Two FMR activities** – The FMR Team met with our CTO and presented a workplan for Year Two; the workplan was agreed upon and activities launched.

Problems Encountered

No unexpected problems were encountered during this quarter. Ongoing areas of concern include a lack of institutional capacity within CNVM and a relative lack of communication among market participants – a gap which the FMR Project continues working to fill.

Activities to be Undertaken During 1st Quarter 2003

Although the team has made great progress on the FMR project to date, there are still several tasks that must be accomplished. This section summarizes the key activities in the work plan for the next quarter. As a team, FMR will focus on the following issues:

- Meeting other non listed companies to bring on the BSE
- Meeting listed companies to attract to issuing bonds
- Hold the roundtable on the development of the capital market, bringing together the government representatives and the key decision makers of the issuers, market participants, and the regulators, in order to discuss benefits and obstacles of:
 - 1) privatization and financing opportunities on the capital market, for the government owned companies
 - 2) setting up the secondary market for government securities on the BSE
 - 3) the issue of the fixed income instruments
 - 4) enforcement vs. over-regulation
- Assist and advise RASDAQ on its legal transformation
- Assist and advise RASDAQ on its suspension / de-listing process
- Work with CNVM, in conjunction with the ongoing EU/PHARE funded advisory project, to upgrade capital markets regulation and the CNVM's surveillance and enforcement capabilities.

In summary, the Financial Markets Reform Project is moving ahead according to plan and has established USAID as a key stakeholder in the reform process. Important impact has already been achieved in some areas, and we expect this trend to continue and expand into the next quarter.

Issuing Office: **USAID/West Bank & Gaza**
T.O. No.: **802**
Project Name: **West Bank and Gaza Accounting and Auditing Sector Program**
Start Date: **September 29, 1999**
Est. Completion Date: **February 28, 2003**

Objectives

The specific objectives of this T.O. are as follows:

- Support the development of self regulatory accounting and auditing organizations;
- Support the adoption and use of internationally accepted accounting and auditing standards in the Palestinian Territories;
- Develop university curriculum that reflect the new standards and support the implementation of the curriculum;
- Develop continuing education courses;
- Develop a system for administering a CPA exam or its equivalent; and
- Develop a code of ethics for both professions and methods of enforcement that re-enforce the self-regulatory nature of the professions.

Overview

During the past quarter, the original scope of work to provide technical assistance to strengthen the accounting and auditing profession in the West Bank and Gaza concluded. As the original project demobilized, USAID issued a new scope of work under the same Task Order. This new scope is for an assessment of the internal audit capabilities of the Palestinian Authority. Deloitte began preparations for the assessment, which is funded by an increase in the Task Order ceiling, extending the date of the Project activities until February 28, 2003.

Noteworthy Accomplishments During 4th Quarter 2002

During this quarter, the team achieved the following results:

- **Fully demobilized the Project**, including disposing of project assets based on a disposition plan approved by USAID;
- **Provided a Program Closure Memorandum** to the Cognizant Technical Officer responsible for the Accounting and Auditing Sector Program in West Bank and Gaza. This Closure Memorandum detailed the achievements of the Project to date, discussed lessons learned, and outlined proposed next steps for strengthening the accounting and auditing profession in West Bank and Gaza.

In addition, the following tasks or activities were in progress during this quarter:

- **Beginning preliminary work on an assessment** of the internal audit capabilities of the Palestinian Authority;
- **Recruiting a new team** of consultants to conduct the above referenced assessment.

Problems Encountered

No serious problems were encountered.

Activities to be Undertaken During 1st Quarter 2003

During this upcoming quarter, Deloitte Emerging Markets will mobilize a team of consultants to conduct an assessment of the internal audit capabilities of the Palestinian Authority. The consulting team will assess and identify the technical assistance needed by the Palestinian Ministry of Finance to support the public finance auditing reform function. In particular, the team will assess the technical assistance needed to provide training and technical oversight to IAD staff and audit staff located in the PA Ministries in both West Bank and Gaza.

The consulting team will develop a detailed scope of work (SOW) for Internal Audit Capacity Building. Prior to the conclusion of the field visit, the team will also develop and submit to the USAID Mission an assessment that will identify ways to facilitate achievement of objectives related to the Oversight and Conduct of Audits.

Issuing Office: **USAID/Uganda**
Task Order Number: **819**
Project Name: **Evaluation of Support for Private Enterprise Expansion and Development (SPEED) Activity**
Start Date: **November 1, 2002**
Est. Completion Date: **December 25, 2002**

Objectives

The objective of this task order was to conduct a mid-term evaluation of the SPEED project, which has provided technical support to three clusters: coffee, cotton, and fisheries. USAID/Uganda would like to continue providing this support during the transition period while the three new core activities (U-TRADE, PRIME, and APEP) are designed and an analysis of the Mission's Integrated Strategic Plan and the SO7 activities in particular has raised the question of how continued support for certain important business environment services, such as finance and commercial law not explicitly addressed by the new SO7 activities, will be provided.

This evaluation shall: assess the impact of the SPEED activity during the first twenty one months; provide clear recommendations to improve implementation and increase overall impact of SO 7's micro, small and medium enterprise (MSME) finance development services and business environment activities; and provide clear recommendations on the place and role, if any, for SPEED in the SO7 Core Portfolio after the current contract ends in December 2003.

Overview

On December 2, the two consultants, Ken Smarzik and Mark Rostal arrived in country and met with the Uganda Mission personnel. Over the three weeks leading up to the end of the year, some 65 interviews were conducted, in addition to 2 field trips to assess the SPEED activity. The consultants debriefed the Mission personnel and the Chief of Party prior to their departure on the 20th of December. In addition, a preliminary draft of the evaluation report was left with the Mission personnel for comment and review, prior to the issuance of the final draft for review by the implementing contractor, Chemonics International.

Problems Encountered

N/A

Activities to be Undertaken During 1st Quarter 2003

Comments received from the Mission personnel will be incorporated into the final draft, which will be shared with the implementing contractor.